

CHAPTER TWO

FROM CRISIS TO ROLLBACK

Rising unemployment was a very desirable way of reducing the strength of the working classes . . . What was engineered — in Marxist terms — was a crisis in capitalism which re-created a reserve army of labor, and has allowed the capitalists to make high profits ever since.

Alan Budd, chief economic advisor to Margaret Thatcher¹

The Nixon-era criminal justice buildup was an attempt to re-engineer a socio-economic system in crisis, a system besieged from below and within. But why was there such a crisis and what exactly were its dimensions? We are all familiar with the story of the sixties. Or are we? As Tom Frank put it, “We understand ‘the sixties’ almost instinctively as the decade of the big change, the birthplace of our culture, homeland of hip . . .”² But “culture” is only one part of the story. There’s another, systematically forgotten sixties. Beneath the bohemian boom, Summer of Love, Days of Rage, and May ’68 lurks a less flamboyant nuts-and-bolts history of profound economic crisis.

The story of this near-meltdown begins three decades earlier, at the end of the last great economic calamity. With the onset of World War II, the US began a massive economic recovery that pulled the country out of the Depression and increased its industrial capacity by almost 100 percent between 1940 and 1945.³ After the war, Europe and Japan (the world’s two other most industrialized regions) were both devastated: economic recovery required heavy dependence on imports of US goods and capital. This further boosted US industry, which shifted from munitions production to feeding these hungry new markets. The Bretton Woods Agreement of 1944 made the

US dollar the world's dominant currency, allowing US business incredible buying power abroad. In 1946 the American economy produced fully *half* of world output, and by 1951 the US still produced one-third of the planet's commodities.⁴

The unusually high profits afforded by these conditions meant that US capital could buy off organized labor. The postwar boom was so bountiful for American industry that taxes, wages, and profits were all high. The contest between labor and capital of course continued; just after the war capital went on the offensive. One result was the Taft-Hartley Act of 1947, which limited organized labor's right to strike, prohibited secondary boycotts, and prevented communists from being officers in the American Federation of Labor and Congress of Industrial Organizations. Nonetheless the predominantly white industrial working class saw its quality of life improve dramatically after the war.

The postwar boom also caused a number of social and geographic changes that would later become factors in shaping the crisis of the sixties. First there was the baby boom, which meant more economic demand to absorb production, but by the late sixties the babies were becoming a swollen generation of young adults, many of them angry and alienated. Then there was mass, government-subsidized suburbanization, which meant increased living standards for many American workers, thus more consumption and more jobs. But it also meant white flight from the cities. In the South, accelerated mechanization of agriculture led to a huge new wave of African American migration to northern cities. When combined with job-site racism, government and private sector redlining, and white flight, this migration meant the formation of large urban ghettos. Beginning in the fifties and accelerating through the sixties, there was also increased immigration from Latin America and the Caribbean, which, coupled with the wider society's racism, translated into more ghettoization.

The first signs of economic trouble were evident by 1966, when, after two decades of unprecedented high growth rates and previously unheard-of profitability, the unique chemistry of the postwar boom began to turn sour. Importantly, Germany and Japan had recovered from their war-time devastation and had begun supplying their domestic markets as well as aggressively exporting. These new economic competitors had an added edge over the US: their wages were lower, and most of their capital stock was newer and more efficient; their factories were state-of-the-art replacements for old ones that had been bombed to smithereens.

"The fundamental problem faced by US business," write Armstrong *et al.*, "was that rivals in Europe and Japan were accumulating capital at a far faster rate and were doing so on the basis of far lower wage costs."⁵ This was due in part to nationalist and social democratic industrialization strategies that quelled financial speculation and capital export, while encouraging businesses to fold their profits back into domestic infrastructure and capital stock, which further accelerated growth rates.⁶

In other words, European and Japanese business accumulated huge quantities of productive capital, which itself produced more of the same. "Between 1955 and 1970 the capital stock in US manufacturing rose by 74 percent; in the major European countries the rise was 115 percent, and in Japan it was 500 percent."⁷ Of course war-ravaged Europe and Japan were both starting from a much smaller base, but the point still stands: their rates of growth and investment were higher than America's. In 1955, Japanese manufacturing capital per worker (an index of mechanization) was about \$5,000 a head (in 1980 prices). By 1970, Japanese manufacturing capital per worker was around \$13,000 per head. Though this was still only half the value of manufacturing capital per American worker, Japanese and European wages were much lower than in the States. This meant Japanese and European rates of productive output and profitability per hour of labor were increasing. In 1960 American hourly manufacturing labor costs, including social security contributions, were roughly *three times as high* as in Europe, and *ten times as high* as labor costs in Japan.⁸

These low wages meant intensified international competition for American manufacturing. For example, Bluestone and Harrison point out that "in 1960 the Japanese sold a total of 38,809 cars worldwide! By 1979 the Japanese were exporting nearly \$26 billion worth of cars, stereos, video recorders, televisions, machine tools and other goods to the US."⁹ By the late 1960s and early 1970s so-called newly industrialized countries (NICs) — such as Korea, Hong Kong, and Taiwan — started joining the game in force and began rapid export-oriented industrialization, thus further filling global markets with commodities of all sorts. Assisting America's new competitors was the high value of the dollar, which made imports comparatively cheap; this was due to the Bretton Woods Agreement of 1944, which fixed the dollar to the price of gold.

OVER-ACCUMULATION

What bounty. But was there enough demand? By the mid sixties consumer spending was tapering off; those classes that could buy mass-produced commodities could not keep up with the pace of output.

Some statistics may help clarify the dilemma: Between 1953 and 1987 the number of homes with air-conditioning and automatic dishwashers increased from 1.3 percent and 3 percent to 64 percent and 43 percent, respectively.¹⁰ By 1970, 99 percent of American homes had refrigerators, electric irons, and radios; more than 90 percent had washing machines, vacuum cleaners, and toasters. In short the slowdown of the seventies was caused in large part by the saturation of markets for consumer durables, the very business lines that had been the heart of the postwar expansion. As one economist put it:

Saturation in one market led to saturation in others as producers looked abroad when the possibilities for domestic expansion were exhausted. The results were simultaneous export drives by companies in all advanced countries, with similar, technologically sophisticated products going into one another's markets . . . Increasing exports . . . from developing countries such as Taiwan, Korea, Mexico and Brazil further increased the congestion of mass markets in the advanced economies.¹¹

By the early seventies, all this postwar growth and industrialization meant chronic *excess capacity on a global scale*. It was a classic crisis of "over-accumulation." In other words, capitalism was suffocating from industrial success.

In this economic environment, American manufacturing and merchandising firms found it increasingly difficult to maintain their amazing (if not aberrant) postwar profitability.¹² With so many commodities already in existence, the price of new commodities necessarily declined. To maintain profits in an environment of declining prices, businesses had to expand output, which only drove down prices further. In short there was too much capital looking for profitable investment outlets, and not enough profitable investment opportunities. (Such conditions lend themselves to speculation and massive "debt formation," but more on that later.)

LABOR AND THE CRISIS

At the same time that the US economy began to slow under the weight of over-accumulation, surplus labor supplies began drying up. Unemployment rates were down and the amount of time unemployed workers had to spend between jobs was declining.

The civilian unemployment rate fell from 5.5 percent at the 1959 business cycle peak to 3.8 percent at the 1966 peak. The average duration of unemployment (as calculated by the U.S. Bureau of Labor Statistics) fell from 14.4 weeks in 1959 to . . . its low of 7.8 weeks in 1969, set[ting] a historic record . . . [And] during the [1966–73] period, the rate of increase of total worker compensation per hour, including not only wages but all benefits, rose from 4.1 percent to 6.8 percent.¹³

Tight labor markets meant that wages continued to *rise* even as corporate revenues and profits *declined*.

It is axiomatic that low unemployment increases working class power in relation to employers. But it can be tricky measuring such power. However, Juliet Schor has created one useful indicator called “the cost of job loss,” that is, the amount of income (measured in terms of potentially missed wages) that the average worker loses between jobs. Another indicator of “the cost of job loss” is the ratio of quits to layoffs and quits to job openings.¹⁴ When the number of workers quitting far exceeds the number of workers laid off or fired, one can assume that employers have lost a degree of control over workers.

That is exactly what happened during the late sixties and early seventies; the ratio of quits to layoffs reached 2:1, almost twice as high as in the late fifties. And the percentage of workers involved in some strike activity between 1966 and 1973 reached 40 percent. All this despite unemployment creeping up from 4 to 8 percent.¹⁵

The boom years, plus lots of hard struggle, brought much of American labor unprecedented affluence and power. As the crisis unfolded, working class power was expressed in overt and organized, as well as organic and clandestine, ways. Ford Motor Company claimed that absenteeism in its plants doubled – and in some plants even tripled – during the 1960s. In one

factory, workers wrote messages to management on their machinery, such as "Treat Me with Respect and I Will Give You Top Quality with Less Effort."¹⁶ As Michael Perelman points out, the new emphasis on creativity and freedom – plus the cultural chaos and cynicism generated by the war, riots, and police repression – began to express itself on the shop floor as mass insubordination. Increased sabotage, slowdowns, and wildcat strikes became the industrial equivalent of "fragging" officers in Vietnam – where many of the young working class malcontents had no doubt first learned to disobey. Halberstam gives an account of a Ford manager in a plant plagued with absenteeism and sabotage. Among the plant's employees was a young man who consistently skipped work on Fridays or Mondays. When finally confronted by management as to why he worked a four-day week the young man replied: "Because I can't make a living working three days a week."¹⁷ He spoke for a generation; working class power translated into an informal economy-wide slowdown, which meant a measured decline in productivity.

Expressions of working class power were not merely confined to malinger and individual resistance; transportation, mining, and construction industries were routinely brought to their knees by strikes throughout the early seventies. Emblematic of the times was a 1970 laborers' strike in Kansas City which, according to the Builders Association, halted 95 percent of the city's commercial construction projects for over three months. "There are very widespread strikes in construction," commented a perturbed Secretary of Labor George Shultz, "settlements are coming in. They are at extremely high levels. They're higher than last year, which was an extraordinary year . . . This a formula for disaster."¹⁸ That same year grave diggers, school teachers, and sanitation workers struck in numerous American cities; truckers stalled commerce with a series of strikes in thirty-seven cities, while air traffic controllers sowed chaos with a long "sick-out."

Then more than 200,000 of the nation's 740,000 postal workers illegally walked off the job. As local after local joined the wildcat strike, panic set in; the press predicted a national disaster. In desperation Nixon sent in troops to move the mails, telling the nation that the issue was nothing less than "the survival of a government based upon law."¹⁹ But even the onslaught of military scabs was marred by lack of discipline: of the 26,000 National Guard, Army, and Air Force personnel called out, only 16,000 showed, and many of those "got mixed reviews as postal workers," preferring to grab empty mail bags and "disappear for the day." According to *Time*, "The Government's

authority was placed in question and the well-being of business, institutions and individuals in jeopardy.”²⁰

The rail industry was also in constant turmoil. A last-minute act of Congress ended one nationwide strike, but walkouts and “selective strikes” continued. And throughout 1971, 20 to 25 percent of all freight shipments were delayed, causing food spoilage, the emergency slaughter of underfed poultry, and layoffs in numerous other industries.²¹ Longshoremen closed both coasts for months at a time, and fishing was also hit by labor action. For much of the summer of 1971 commercial draggers in New Bedford, the fourth largest fishing port in the nation, refused to work.²² Even workers at Disneyland planned a strike.²³ In fact in 1970 over sixty-six million days of labor time were lost due to work stoppages, the highest yearly loss due to unrest since 1946.²⁴

But tight labor markets and over-accumulation were not the only causes of productivity slowdown; poor management and lack of new investment contributed as well. Instead of retraining and retooling, American capital shifted increasingly towards speculation in real estate and stocks. Also clouding the economic outlook were rising fuel prices, which began creeping up even before OPEC’s 1973 price shock. Rising oil costs meant rising input costs, as raw materials and transportation became more expensive. Together these components translated into rising *per-unit costs*.²⁵

Capitalism had always been prone to cycles of boom and bust, but this time the pattern was different. As the crisis wore on, unemployment began to rise sharply; from below 4 percent in 1969, joblessness pitched up to above 7 percent in 1974.²⁶ Yet wages and prices did not fall as had been expected. In fact Barry Bosworth, who later worked as an economist for the Carter administration’s Council on Wage and Price Stability, noted that “the wage rate increases [during the crisis] had actually accelerated slightly despite the high unemployment.”²⁷ This combination of stagnant growth and rising inflation became known as “stagflation.”

The crippling combination of rising consumer prices, rising wages, increasing stagnation, and unemployment continued even after the 1973 oil-shock recession. Nixon tried to discipline labor with a recession in 1971 but was too worried about re-election to really turn the screws. In fact real wages in the US continued to rise, though with diminishing vigor, until 1979.²⁸

The historically consistent inverse relationship between wage levels and unemployment is known among economists as the Phillips curve.²⁹ For the

first time in American history the two components of this economic “law” were out of whack. Unemployment was rising yet wages did not fall in reaction.

Also fueling inflation were the government’s Keynesian spending habits. Having run the equivalent of a budget surplus in the early 1960s, Johnson began to go into debt with the escalation of the Vietnam war and (to a much lesser extent) the war on poverty; increasingly such projects were paid for by simply printing money.³⁰ Likewise, Kennedy’s tax cuts had increased liquidity during the sixties, which spurred spending and thus inflation.

From the early 1950s through 1965, the annual inflation rate hovered at around 2 percent. Moreover, this average was quite constant, containing neither periods of great price rises nor plunges. But from 1966 onward, inflation rose steadily, peaking at around 6 percent in 1969–70 before it dipped slightly in 1971–72 (when Nixon, his eye on re-election the next year, engineered a quick recession and then imposed across-the-board wage and price controls). Thereafter consumer inflation resumed a steady upward spiral to a peak of almost 12 percent in 1979.³¹

THE PROFIT SQUEEZE

The economic indicator of paramount importance in this story is, of course, the average rate of profit: the *raison d’être* of market economies. The crisis of the late sixties and seventies sent corporate profits into steep decline. Harrison and Bluestone explain: “From a peak of nearly 10 percent in 1965, the average net after-tax profit rate of domestic non-financial corporations plunged to less than 6 percent during the second half of the 1970s – a decline of more than a third.”³² After twenty years of continual expansion during the long postwar recovery, profits began to sag in 1966 and continued to decline steadily until 1974, until they reached an average low of around 4.5 percent.³³ The same pattern of a 30 percent plunge in profits was true from Germany to Japan, as all advanced capitalist countries experienced an after-tax profit decline of between 20 and 30 percent.

This plunge in corporate fortunes had myriad causes and locations other than at the point of production. Taxes and increasing state regulation were particularly bad for profits. Since the New Deal the state had played an increasing role in the economy, but the move towards a bastardized American version of social democracy accelerated considerably during the sixties and

seventies. Between 1964 and 1979 the federal government enacted sixty-two health and safety laws which protected workers and consumers, while thirty-two other laws were passed protecting the environment and regulating energy use. Many of these state interventions happened on Nixon's watch. Between 1970 and 1973 Nixon presided over the creation of the Environmental Protection Agency, the Occupational Safety and Health Administration, the Consumer Safety Administration, and the Mine Enforcement and Safety Administration. The direct result of this new regime of regulation was a massive increase in the cost of business.³⁴

Though it was Nixon who signed these agencies into law, he did so under duress; massive social movements had forced his hand. Estimates of the added costs to business of these social regulations were enormous. Two Brookings Institution scholars estimated that by 1983 pollution controls alone had cost American firms anywhere from \$13 to \$38 billion, while the bill on health and human safety was probably between \$7 and \$17 billion.³⁵

At one level the crisis involved a simple contest between the classes. The share of output that went to profits *declined* while the share going to everything else, including the social wage, *increased*. The working class was too powerful and, from the management point of view, needed disciplining. Strangely, many Marxists resist giving the working class its due in respect to the crisis; in fact some even see emphasizing the role of working class power as tantamount to blaming the working class as the cause of the crisis. Robert Brenner, while acknowledging the upward pressure on wages and increased militancy, blames the profit squeeze on international competition and rising state and local taxes. He is correct on the first count but wrong in not seeing increased taxation as the booty of worker and consumer-led class struggle. Regardless of the *exact* etiology of the profit slump, one thing is for sure, *the solution* to the crisis was, as we shall see, to attack labor. Losses by capital, regardless of their origin, can always be recuperated by diminishing labor's share of output. However, an effective business counteroffensive would not come for some time.

CONFRONTATION DELAYED

By the early seventies key elements in the American ruling classes had realized the need for change. First on the list of targets were the new state

structures that empowered and, in the eyes of some, spoiled the working class. Health and safety regulations, free higher education, job training, anti-poverty programs, legal aid, humanities grants for trouble makers, and welfare benefits for striking workers!³⁶ All these social democratic reforms were part of the problem, and costing enormous sums. As the Trilateral Commission's 1975 "report on governability" put it, there was a "crisis of democracy" which, though coded, meant that there was *too much* democracy.³⁷

The solution, according to New Right theorists like Milton Friedman, Lawrence Mead, and George Gilder, was to cut government. That is, cut taxes on the corporations and the wealthy, deregulate health and safety regulations, and slash state spending on education, welfare, and social programs. And to initiate this the government would have to plunge the economy into a "cold bath recession" so as to scare and discipline labor. But throughout the seventies the Keynesian consensus was too strong: monetarist austerity and a deregulatory war on labor and consumers had to wait until the accession of Ronald Reagan.

REAGANOMICS: THE RIOT OF THE RICH

The crisis of the seventies was finally dealt with in 1979 when Carter appointed Paul Volcker as Chairman of the Federal Reserve; it was the opening salvo of a "new class war." Late in 1979 Volcker dramatically tightened the money supply by boosting interest rates, thus cutting borrowing power and buying power, and diminishing economic activity in general. This monetarist squeeze accelerated when Reagan took office, until interest rates, which had been 7.9 percent in 1979, reached 16.4 percent in 1981. As a direct result, the US economy plunged into its most severe recession since the Great Depression.

In the eyes of Paul Volcker this was a good thing. For the economic stagnation and low profits of the seventies to be vanquished the American people would have to learn how to work harder for less; Reagan's plan was to cut taxes on the rich, gut welfare, and attack labor. As Volcker told the *New York Times*: "The standard of living of the average American has to decline . . . I don't think you can escape that."³⁸

In 1981 as the recession was reaching new depths and many in Congress

were calling for relief, Volcker again explained the utility of his artificial economic disaster: "in an economy like ours with wages and salaries accounting for two-thirds of all costs, sustaining progress [in price reduction] will need to be reflected in moderation of growth of nominal wages. The general indexes of worker compensation still show relatively little improvement, and prices of many services with high labor content continue to show high rates of increase."³⁹ The chairman's goal was labor discipline. The recession — though hard on many businesses, particularly small firms — had not yet achieved its purpose: wages were still rising.

Not until the behemoth First Illinois Bank collapsed under the weight of its bad loans and Mexico seriously threatened a default on its \$90 billion foreign debt did Volcker relent and open the Fed's spigots, easing interest rates and making credit available throughout the economy, thus stimulating economic activity. But according to Harrison and Bluestone,

the deep recession did precisely what it was designed to. With more than ten million people unemployed in 1982 it was impossible for organized labor to maintain wage standards let alone raise them. Reductions in wages rippled from one industry to the next and from the center of the country outward. The real average weekly wage fell more than 8 percent between 1979 and 1982, and failed to recover at all in the next five years. Essentially, with wage growth arrested by unemployment, what growth occurred during the Reagan period rebounded mostly to the profits side of the capital-labor ledger.⁴⁰

Before the 1980–82 cold-bath recession, wage freezes and pay cuts in unionized industries had been almost non-existent. Since 1964, and from World War II on, wages had been rising more or less consistently. In 1980 not a single union contract negotiation had ended in a pay freeze or cut. By 1982, 44 percent of new contracts conceded wage freezes or outright cuts.⁴¹ Meanwhile the official unemployment rate, always an under-estimate, reached 10 percent.⁴² This was Reagan's monetarist hammer falling on the middle class expectations of organized labor and, by extension, all workers.

Simultaneously, the Reagan administration began looking for a direct confrontation with the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO). A strike by the nation's air traffic controllers in 1981 provided the perfect opportunity.

After pledging his support to the Professional Air Traffic Controllers Organization (PATCO) during the election campaign, Reagan greeted the strike with an executive order firing all 11,000 striking controllers. It was entirely in keeping with the administration's preference for scorched earth foreign policy and apocalyptic rhetoric. This sent a clear signal to management, and labor, that the war was on and that the state would back business to the hilt. University of California labor economist Harley Shaiken, describing the ensuing assault on labor, noted:

We've always seen aggressive management in many industries. What's different now is that a number of companies who for most of the last 40 years operated on the basis of a certain social contract are redefining the terms of that contract. It isn't just a back alley machine shop with 200 workers going after its union. It's AT&T violating seniority rules. It's Caterpillar threatening to replace its work force . . . Public companies that would have shunned these tactics a decade ago are now using them.⁴³

Reagan also began stacking the National Labor Relations Board (NLRB) — the federal body which arbitrates labor disputes — with anti-union activists.

The Reagan administration also sanctioned the use of contingent labor; it even set an example in 1985 by allowing the government to hire temp workers at below union wages. Then in 1986 the Reagan administration legalized homework, a practice many trade unions argued would lead to self-exploitation and child labor, and would undermine established minimum levels of health and safety.⁴⁴ And that is exactly what happened. "In 1988 the U.S. Labor Department reported twenty thousand child-labor-law violations, up from thirteen thousand in 1986." New York State noted a 500 percent increase in the number of New York City sweatshops employing children.⁴⁵ According to the US Department of Labor, the number of minors illegally employed in sweatshops increased 128 percent in the second half of the 1980s. The United Farm Workers of America estimates that 800,000 children and teenagers work as migrant laborers. The American Academy of Pediatrics estimates that 100,000 children are injured on the job in the United States each year.⁴⁶

Along with the assaults on labor, the Reagan administration did its part to eviscerate social spending. In 1982 alone Reagan cut the real value of welfare by 24 percent, slashed the budget for child nutrition by 34 percent,

reduced funding for school milk programs by 78 percent, urban development action grants by 35 percent, and educational block grants by 38 percent.⁴⁷

In 1981 Reagan abolished the Comprehensive Employment and Training Act, throwing 400,000 unemployed on to the job market with the stroke of a pen. Cutbacks in Aid to Families with Dependent Children (AFDC) payments and tighter eligibility rules added another 500,000 unemployed to the job market.⁴⁸ These cuts were merely the opening act in the continued demolition of welfare, which only accelerated through the 1990s, with Clinton's creation of Workfare and Temporary Aid to Needy Families (TANF), a scaled-back version of AFDC with a three-year time limit.

Though dressed up as a moral crusade against "the culture of poverty" which hurts the poor (particularly poor Blacks) by encouraging laziness, the Reagan administration's assaults on social spending were really about lowering the costs of doing business. As Piven and Cloward pointed out in *The New Class War*, "Income maintenance programs are coming under assault because they limit profits by enlarging the bargaining power of workers with employers . . . The connection between the income-maintenance programs, the labor market and profits is indirect, but not complicated."⁴⁹

George Gilder, neoconservative theorist and afflatus of the Reagan revolution, put it more simply: "the poor must work hard, and they must work harder than the classes above them."⁵⁰

POWER TO THE RICH!

The wealthy, meanwhile, were enjoying a state-subsidized renaissance. By 1987 Reagan had delivered the richest 1 percent of the population a net tax saving of 25 percent, while the poorest tenth of workers saw 20 percent more of their incomes "swallowed by taxes."⁵¹ The combination of tax cuts, welfare gutting, assaults on labor, and the deregulation of banking and finance created an estimated 2,500 to 5,000 new millionaires and gave "untold added wealth to the nearly 500,000 people who already belonged to that elite circle."⁵² Overall, average after-tax profit rates of the 1980s recovered somewhat to an average of 6 percent.⁵³

As the state disciplined labor and pampered investors, American corporations began accelerating their international quest for cheap labor. American manufacturing firms had been setting up shop abroad since the mid 1960s;

wage pressures at home drove them offshore while technological innovations in container shipping, jumbo air-transport, and telecommunications facilitated their departure. But deindustrialization really took off during the late 1970s and 1980s. American manufacturers exported jobs by moving entire plants, or entire industries, or subcontracting key parts of industries, to foreign locations where social and environmental regulation was minimal and wages low. For example, in 1972, when the falling rate of profit was beginning to look permanent, the average US worker made \$1,220 a month, while Singaporean workers made only \$60 a month, South Koreans only \$68, and Taiwanese a mere \$45 a month.⁵⁴

Between 1965 and 1992 corporations such as GM, Fisher-Price, Trico, Parker-Hannifin, Xerox, Ford, IBM, and GE, moved 1,800 plants, employing 500,000 workers "south of the border." That same year Americans purchased 2.6 million color TV sets. By 1991, Americans were buying twenty-one million sets a year. A year later the last US-based manufacturer of color TV sets, Zenith, departed for Reynosa, Mexico.⁵⁵

As one American CEO put it: "We are able to beat the foreign competition, because we are the foreign competition."⁵⁶ Between 1980 and 1985, the Department of Labor estimated that some 2.3 million manufacturing jobs disappeared for good.⁵⁷ As industrial jobs disappeared so did attendant retail activity, the local tax base, and municipal employment.

By the mid eighties deindustrialization and the associated decline in local retail, building, and services had dramatically transformed the urban landscape of the Northeast and Midwest. Although for most deindustrialized regions the "hollowing out" of the 1980s was just the dramatic finish to a long slow decline, nonetheless the final calamities appeared as sudden economic implosions.⁵⁸

For example, Detroit, the symbolic center of industrial America, lost half its population during the eighties; as buildings gave way to empty lots, wild game, particularly pheasant and deer, became common hazards on the city's thoroughfares. As in many towns, whites almost completely abandoned the central city; the 1990 census found that Detroit was 80 percent African American and had an official poverty rate of 33 percent.⁵⁹ In 1983 depopulation was already so bad and the number of empty buildings and houses so great, that the traditional night of pranks before Halloween became a three-day carnival of arson. At least 800 primarily empty buildings were put to the torch. Over the next five years this practice known as Devil's Night became

almost institutionalized, drawing bands of pyromaniacs, journalists, and white suburbanites (some of whom were off-duty fire fighters).⁶⁰

Throughout the country, industrial cities saw a mass exodus of working and middle class residents to the suburbs or Sunbelt. At first the emigrants were predominantly Caucasian, but soon the Black middle class also fled. The result was a massive expansion in the number of urban census tracts that qualify as ghettos (that is, having over 40 percent poverty). Chicago saw its number of ghetto census tracts increase by 61.5 percent between 1980 and 1990. Cities like Cleveland, Philadelphia, and Boston saw similar changes. Overall, the number of African Americans who found themselves living in "ghetto" census tracts due to middle class flight grew by one-third during the eighties, to a total of six million.⁶¹

As the traditional industrial jobs base of many cities eroded, low wage service work proliferated. But this employment has largely ignored African Americans. Hiring and firing practices in the service sector are more racist than in industrial employment.⁶² Sociologists note the "deepening of black-white linguistic opposition" as reasons why white employers avoid African Americans for face-to-face service positions. We might add that two decades of crime-coded racism and fearmongering reportage has certainly fueled racism in the labor market, regardless of speaking styles. In general people of color are 50 percent more likely to be laid off than whites.⁶³ Municipal austerity has added to the devastation of Black employment; public employment was one of the few realms where affirmative action was enforced with any vigor. Thus public employment, once a bedrock of African American employment, has suffered serious rollback under the ideology of "lean" and "reinvented" government.⁶⁴

William Julius Wilson has noted that, while urban poverty is old, massive joblessness is not. "The consequences of neighborhood joblessness are more devastating than those of high neighborhood poverty."⁶⁵ Work is, after all, not just a means to sustenance, it is also a form of social control: it occupies our time, structures our lives, and channels passions. When work disappears, social organization breaks down. The second wave of the criminal justice crackdown is fundamentally about controlling the newly "deregulated" populations created by economic restructuring.

The neoliberal rollback is also a global agenda: Reagan's proxy wars in Latin America, IMF structural adjustment programs, and increased foreign capital penetration of Third World markets have caused massive social and

economic disruption. The refugees from war and market expansion first seek haven in the cities of the South, then they head north. This “peripheralization of the core” helped swell the ranks of the American proletariat and paupers (and, as we shall see later, requires a whole policing infrastructure of its own).⁶⁶

Overall, “Reaganomics” increased class and racial polarization, destroyed inner cities, sacked public education and public health services, created epidemic homelessness, increased exploitation of workers, and caused the intensified spatial concentration of a permanently unemployed class. By the mid eighties the contours of this strange new economic geography even extended to the door of Reagan’s country redoubt, Rancho del Cielo. In 1985 Santa Barbara’s manicured parks and the dry gullies between its mansions hosted an estimated 2,000 “displaced people” in a population of 75,000.⁶⁷ By 1987 an estimated two million Americans were homeless.⁶⁸ In fact, Reagan created whole new classes of poor and desperate people. It was in response to this social crisis, created by the elite response to the profit crisis, that a new wave of criminal justice crackdown began.